

CERTIFIED MAIL

80 APR 1977

Gentlemen:

We have considered your application for recognition of exemption from Federal Income Tax under section 501(c)(7) of the Internal Revenue Code.

The information submitted discloses that you were incorporated on [REDACTED] under the nonprofit corporation laws of the State of [REDACTED].

You state that the purpose of this organization is to own, operate, and maintain recreational facilities, including a golf course.

Your activities concentrate on the construction, preservation and control of a golf course. You, also, promote recreation, education, and other related activities on your property.

The organization's revenue is derived from membership fees, green fees, the sale of refreshments, and equipment rental. The public has access to the golf course evidenced by your plans to place newspaper advertisements. Also, you state that the general public will benefit from the activities of the corporation. In opening your golf course to the public, a large percentage of your gross income is received from nonmembers' use of the facilities. In your yearly breakdown of income, you demonstrated that the source of all income in [REDACTED] and [REDACTED] was from nonmembers. In [REDACTED], when the golf course was officially in operation, [REDACTED] percent of your gross income was from nonmembers. In dollars, out of the total [REDACTED] income of \$[REDACTED], \$[REDACTED] came from nonmembers.

Section 501(c)(7) of the Code provides for exemption from Federal Income Tax of clubs organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, no part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(v)(7) of the Income Tax Regulations relating to the exemption of social clubs reads in part, "A club which engages in business, such as making its social and recreational facilities available to the general public is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, and is not exempt under Section 501(a)."

Revenue Ruling 58-385 provides that a social club should not engage in any type of business activity for profit which is designed to increase or which could result in an increase in net earnings inuring to the benefit of any shareholder or individual. Net earnings may inure to members in such forms as an increase in services offered by the club without a corresponding increase in dues or other fees paid for club support.

Also, your attention is directed to provisions of Public Law 94-568 which states that social clubs are allowed to earn limited amounts of income from nonmember sources and investments. The new law is intended to permit an exempt social club to receive up to thirty-five percent of all gross receipts, including investment income from nonmember sources. No more than fifteen percent of gross receipts, however, can be from the general public's use of club facilities and services.

Based on the facts shown, your organization's nonmember income has well exceeded the fifteen percent limitation. As previously stated, approximately [REDACTED] percent of your total income stems from outside sources and nonmembers. Therefore, it cannot be said that you are operated exclusively for pleasure, recreation and other nonprofitable purposes and that no part of your income inures to the benefit of your members.

Accordingly, we hold that you are not entitled to exemption from Federal Income Tax as an organization described in section 501(c)(7) of the Code. You are required to file income tax returns annually with your District Director.

If you do not agree with these conclusions, you may within 30 days from the date of this letter, file a brief of the facts, law and arguments (in duplicate) which clearly sets forth your position. In the event you desire an oral discussion of the issues, you should so indicate in your submission. A conference will be arranged in the Regional Office after you have submitted your brief to the Chicago District Office and we have had an opportunity to consider the brief and it appears that the conclusions are still unfavorable to you. Any submission must be signed by one of your principal officers. If the matter is to be handled by a representative, the Conference and Practice Requirements regarding the filing of a power of attorney and evidence of enrollment to practice must be met. We have enclosed Publication 892, Exempt Organization Procedures for Adverse Determinations, which explains in detail your rights and procedures.

[REDACTED]

If you agree with this determination please sign and return the enclosed Form 6018.

Sincerely yours,

[REDACTED]
[REDACTED]
[REDACTED]
District Director

Enclosures
Publication 892
Form 6018